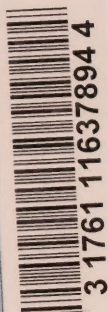


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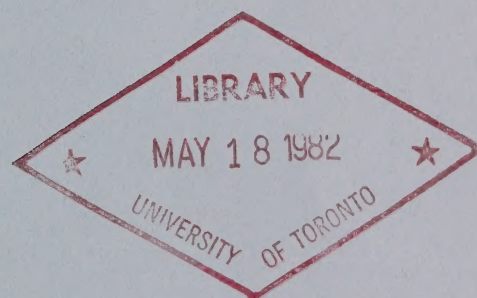


<sup>2</sup>  
NATIONAL ENERGY BOARD  
<sub>3</sub>  
REASONS FOR DECISION



In the Matter of the Application under  
Part IV of the National Energy Board Act  
(Toll Application)

of



<sup>M</sup>  
**Alberta Natural Gas Company Ltd**

**April 1982**





NATIONAL ENERGY BOARD


REASONS FOR DECISION

In the Matter of an Application under  
Part IV of the National Energy Board Act  
(Toll Application)

ALBERTA NATURAL GAS COMPANY LTD

APRIL 1982

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NATIONAL ENERGY BOARD

IN THE MATTER OF The National Energy Board Act and  
the Regulations made thereunder;

AND IN THE MATTER OF an Application by Alberta  
Natural Gas Company Ltd., (hereinafter called "the  
Applicant" or "the Company") for an order  
respecting tolls and tariffs pursuant to Part IV  
of the National Energy Board Act, filed with the  
Board under File No. 1562-A2-1.

HEARD at Ottawa, Ontario on 8, 9 and 10 March 1982.

BEFORE:

C.G. Edge	)	Presiding Member
J.L. Trudel	)	Member
R.B. Horner, Q.C.	)	Member

APPEARANCES:

J.R. Smith, Q.C.	)	Albert Natural Gas Company Ltd
F.G. Homer	)	Alberta & Southern Gas Co. Ltd.
M.M. Peterson	)	Canadian Petroleum Association
A.R. Macdonald	)	National Energy Board

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ABBREVIATIONS AND DEFINITIONS

"ANG"/ Company/Applicant	-	Alberta Natural Gas Company Ltd
"the Board"	-	National Energy Board
"TransCanada"	-	TransCanada PipeLines Limited
"Westcoast"	-	Westcoast Transmission Company Limited
"CPA"	-	Canadian Petroleum Association
"DCF"	-	Discounted Cash Flow
"May 1980 Decision"	-	In the Matter of a Public Hearing under Part IV of the National Energy Board Act Respecting Tariffs and Tolls to be Charged by Alberta Natural Gas Company Ltd dated May 1980







## CHAPTER 1

### INTRODUCTION

Alberta Natural Gas Company Ltd ("ANG") owns and operates a large-diameter pipeline system extending some 171 km from Coleman, Alberta to the United States border at Kingsgate, British Columbia. The bulk of the gas carried by ANG is for export on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited and more recently for Foothills Pipe Lines (South B.C.) Ltd. Some domestic deliveries are made at various points in British Columbia.

In accordance with a contract with the shippers dated 20 September 1960, as amended, ANG operates its pipeline under a cost-of-service tariff by which tolls are calculated and billed on a monthly basis. In June 1979, the Board informed ANG of its intention to determine for the first time through public hearing the just and reasonable tolls to be charged by the Company. As a result of this hearing Order No. TG-1-80 was issued which established the method of calculation of the tolls currently charged by ANG.

In an application dated 21 December 1981, ANG applied for an amendment to paragraph 11 of Order No. TG-1-80 to permit an increase in the authorized rate of return on rate base from 11.5 percent to 15.18 percent, effective 1 January 1982.

In its hearing order, No. RH-1-82, the Board indicated that, in addition to the rate of return issues mentioned above, it wished to receive evidence and submissions on the question of the calculation of ANG's allowance for income taxes, and offered the opportunity for interested parties to raise any other issues relating to ANG's tolls and tariffs. No such issues were raised.

A public hearing on the application was held in Ottawa on 8, 9 and 10 March 1982.

CHAPTER 2

RATE OF RETURN

ANG has applied for a revised rate of return on rate base of 15.18 percent. This rate of return was based on a deemed capital structure and an estimated average corporate capitalization exclusive of deferred taxes. The applied-for estimated average capitalization and rate of return, as amended, is shown below:

	<u>Capitalization</u> <u>(\$000's)</u>	<u>Capital</u> <u>Structure</u> <u>%</u>	<u>Cost Rate</u> <u>%</u>	<u>Cost Component</u> <u>%</u>
Long Term Debt	16,642	19.04	8.51	1.62
Imputed Debt	35,804	40.96	16.25	6.66
Common Equity	<u>34,964</u>	<u>40.00</u>	17.25	<u>6.90</u>
Total	<u>87,410</u>	<u>100.00</u>		<u>15.18</u>

DEEMED CAPITAL STRUCTURE

The above capital structure is calculated in accordance with the method approved by the Board in its ANG May 1980 Decision and includes:

- (a) the amounts and costs of the actual average outstanding balances of all long-term funded bond issues, namely, Series A, B, and C for the year ended 31 December 1982;
- (b) a deemed 40 percent common equity component; and
- (c) an imputed debt component to balance the capital structure with the total permanent capital of the corporation less deferred taxes.



In support of a 40 percent deemed common equity component, an expert witness for the Company submitted that it has become more important for companies to maintain a strong equity base to ensure maximum financial flexibility. It was further suggested that if the deemed common equity component were to be reduced, it would result in an increased financial risk to the Applicant, which should be reflected and compensated for in the rate of return.

The major intervenor, the Canadian Petroleum Association (CPA), argued that a deemed common equity ratio of 40 percent is too large for a company in the position of ANG. The Association pointed to evidence given by an ANG witness in the Company's first toll hearing to the effect that the Company's business risks were not substantially different from those of TransCanada PipeLines Limited or of Westcoast Transmission Company Limited. The same witness, appearing for ANG in this hearing, testified that there have been no substantial changes to those risks in the interim. As a measure of the common equity ratio needed to maintain financial flexibility, the Association pointed out that TransCanada, which has a corporate equity ratio of 30 percent, has demonstrated the ability to undertake major financings in recent years.

In its May 1980 Decision, the Board described a common equity ratio of 40 percent to be the upper limit of an acceptable range for ANG. In deciding on an appropriate rate, which in combination with the allowed rate of return on equity will determine the profit earned by ANG, the Board must balance the interests of the Company and of its customers. On the one hand, if

rates are to be just and reasonable, the return earned by the Company must not be too high. On the other hand, the return must be fair to the shareholders of the utility and must be sufficient to permit capital to be attracted at a reasonable cost.

In this hearing ANG strongly endorsed the stand-alone approach to regulation adopted by the Board, whereby, for rate-making purposes, the utility operation is viewed as being separate from any other operations of the Company. The evidence is clear that utilities, by reason of the security inherent in their monopoly position, can operate with common equity ratios lower than those required in competitive businesses. Having regard to the above considerations, to the evidence that the business risks faced by ANG are comparable to those of TransCanada and Westcoast, together with the evidence of TransCanada's and Westcoast's ability to raise capital at reasonable cost with corporate common equity ratios of 30 and 35 percent respectively, the Board finds that a ratio of 35 percent is appropriate for ANG at this time for the purpose of determining a just and reasonable rate of return.

Another issue related to the Company's proposed capital structure that is of concern to the Board is the calculation of the rate of return by reference to the total permanent capital of the corporation less deferred taxes. The total permanent capital is some \$87 million while the average rate base of the utility is \$25.165 million. The calculation of the rate of return by reference to total permanent capital was proposed by the Applicant and adopted by the Board in its May 1980 Decision. However, taking

into account the present larger proportion of non-utility assets and the Applicant's endorsement of the stand-alone approach to regulation, the Board now believes that the rate of return and capital structure should be related to the utility rate base.

#### LONG-TERM DEBT

##### Allocation of Bond Issues

As shown in the table on page 3, the Applicant derived the long-term embedded debt ratio applicable to the utility from its corporate capital structure, producing a ratio of 19.04 percent. If applied to the rate base, the result would be to attribute to the utility \$4.7 million of the outstanding total of \$16.6 million of long-term debt.

The Applicant's long-term debt consists of three issues, denoted A, B, and C. The Series A issue was floated in 1961 when the Company's operations were limited to the pipeline utility. The Applicant agreed that the Series A issue can be totally attributed to the funding of utility assets. However, the Applicant did not believe that it was possible to trace the money derived from the Series B, and C bond issues directly to utility and non-utility plant investments.

The Board is of the view that it is a logical extension of the stand-alone approach to regulation that where funds can be traced, they should so be. Therefore, Series A bonds have been directly assigned to the utility. ANG's Series B bonds were issued



in 1969 and 1970, and Series C of \$15 million in 1971. In those years ANG invested \$30,967,777 in plant, split between utility and non-utility as follows:

	<u>Amount</u>	<u>%</u>
Utility	\$13,694,034	44
Non-utility	<u>17,273,743</u>	<u>56</u>
	<u>\$30,967,777</u>	<u>100</u>

Before 1969 and after 1971, additions to plant were of a relatively minor nature. Notwithstanding that there were other cash flow items which might have a bearing on the ultimate tracing of specific funds, the Board finds that the proximity in time between these large debt issues and the large capital investments in those years, together with the lack of evidence of any alternative use of those funds, leads inevitably to the conclusion that the debt proceeds funded in part those investments. The Board finds it appropriate to allocate the outstanding balance of this debt between the utility and non-utility operations on the basis of the relative totals of investment in plant in those years.

In summary, the Board has determined that the amount of embedded long-term debt to be included in the allowed capital structure is 100 percent of the average outstanding balance of Series A and 44 percent of the average outstanding balances of Series B, and C. On this basis, the amount of debt attributed to the utility is \$9,783,000, which represents 38.87 percent of the deemed utility capitalization.

### Cost of Embedded Debt

The Applicant has included in its applied-for cost of debt an increase to the annual interest rate for the Series A, B, and C bonds, effective 1 January 1982. This increase of  $\frac{3}{8}$  of one percent was agreed to by ANG in return for a loosening of certain restrictions in the Trust Deed governing the debt issues which prohibited the Company from investing in areas other than the existing gas transmission and liquid extraction operations.

The Board finds the increase of  $\frac{3}{8}$  of one percent to be a non-utility cost which should be deducted in the determination of the embedded cost rate applicable to long-term debt. The embedded cost rate allowed by the Board is adjusted to reflect the appropriate utility allocation and the reduction of the annual rate of interest by  $\frac{3}{8}$  of one percent on Series A, B, and C bond issues. The calculation of the embedded cost of debt is shown in Appendix 1 and supporting Appendices II to VI.

### IMPUTED DEBT

Based on a 35 percent equity ratio and a 38.87 percent embedded long-term debt ratio, the imputed debt ratio is 26.13 percent. This ratio applied to the rate base of \$25,165,000 yields an amount of imputed debt of \$6,574,000.

ANG has applied for an imputed debt cost of 16.25 percent which, consistent with the Board's May 1980 Decision, is proposed to be costed at the prospective current cost of debt.

An expert witness for ANG provided evidence illustrating the changes in interest rates and preferred share yields that have occurred since the May 1980 Decision. It was suggested that these changes justify a substantial upward adjustment to the return allowed on imputed debt. Based on a predicted recovery in the market for "A" rated public utility debt, the witness concluded that the imputed cost of debt should be within the range of 15.75 to 16.25 percent.

Having regard to all of the evidence presented, the Board finds 16.0 percent, the midpoint of the above range, to be a fair cost to be applied to imputed debt.

#### COST OF COMMON EQUITY

The Applicant applied for a rate of return on common equity of 17.25 percent.

ANG's witnesses applied various techniques for the determination of their recommendations for the rate of return on common equity. One expert witness relied principally on the evidence afforded by equity risk premium studies and the comparable earnings technique. However, as a check on the results of the other techniques, the witness provided the rates of return generated from the discounted cash flow (DCF) technique, adjusted to achieve a desirable market-to-book ratio. Based on these techniques, the witness derived a recommendation in the range of 17.0 to 17.5 percent.



The CPA submitted that the comparable earnings test is no longer an adequate standard by which to measure rate of return and that its validity has been eroded by continuing high levels of inflation. The CPA's expert witness relied on a DCF method which generated a range of rates of return on common equity of 15.25 to 15.75 percent.

In the Board's view the determination of a fair rate of return on common equity involves the evaluation of a number of different approaches. The Board is of the view that the final determination of a just and reasonable rate of return requires the exercise of judgement. Having regard to all the evidence, and giving consideration to the subjectivity of the methods used, the Board finds 16.75 percent to be a fair and reasonable rate of return on the allowed 35 percent deemed common equity ratio.

RATE OF RETURN ON RATE BASE

Based on its findings in this case, the Board has decided that a rate of return on rate base of 13.30 percent is just and reasonable. The derivation of this rate of return is presented in the deemed capital structure below.

	Capitalization (\$000's)	Capital Structure %	Cost Rate %	Cost Component %
Long Term Debt	9,783	38.87	8.39	3.26
Imputed Debt	6,574	26.13	16.00	4.18
Common Equity	<u>8,808</u>	<u>35.00</u>	16.75	<u>5.86</u>
Total (1)	<u>25,165</u>	<u>100.00</u>		<u>13.30</u>

(1) Rate base taken from Exhibit 5, Question 2 (iv)(a), Schedule 2.

CHAPTER 3

INCOME TAXES

BASIC FRAMEWORK

Upon consideration of the Applicant's 29 December 1981 submission to increase the rate of return on rate base authorized by Order TG-1-80, it appeared appropriate to the Board to review as well certain matters relating to the provision for income taxes to be included in the Company's tolls.

In Order TG-1-80, the Board directed that ANG calculate the provision for income taxes to be included in its tolls on the flow-through basis. It was also stipulated that the provision for income taxes be based essentially upon the common equity return which flowed from the deemed capital structure employed for rate-making purposes at that time. Inherent in this latter stipulation was the direction that the income tax provision to be included in the Company's tolls be calculated as though its gas transmission activities were its only business.<sup>(1)</sup> The income tax allowance granted ANG was thus to be calculated on a stand-alone basis, excluding amounts of income and expense related to its gas extraction operations.

Neither the Applicant nor any intervenor questioned the continuation of this basic flow-through/stand-alone framework for the computation of the utility's tax allowance and it is the view of

---

(1) ANG also operates a gas extraction business within the same corporation which is unrelated to its utility activities.

the Board, in the circumstances of this case, that such an approach may properly be continued with this Decision.

Within the basic context set forth above, several matters relating to the utility tax calculation were examined in the current proceeding. These centered on the tax rate to be employed in the calculation, on the income/expense related items or proportions thereof to be reflected in the calculation, and the time period in relation to which the calculation should be made.

#### INCOME TAX RATE

In its submission, ANG asserted that the overall income tax rate employed in the calculation of the utility's income tax allowance should reflect the five percent corporate surtax,<sup>(1)</sup> notwithstanding that the Corporation as a whole did not expect to be in a tax paying position in the 1982 test period. The Company also proposed that the overall income tax rate include a combined Alberta/British Columbia provincial rate which would be consistent with the fact that all but 0.5 kilometres of the pipeline is located in British Columbia. This proposal identified all pipeline-related wages as being payable in that province, notwithstanding that the combined provincial rate applicable to the corporation under federal income tax law reflects the payment of some pipeline-related wages in the province of Alberta.

---

(1) First having been instituted with respect to the years 1980 and 1981, the Federal Government proposed, in its Notice of Ways and Means Motion of 12 November 1981, to extend through 1982 the five percent surtax on Federal Part 1 taxes payable by corporations.



The evidence indicates that these propositions were consistent with the Company's position that a fully stand-alone view should be taken with respect to its pipeline operations and that such a view would not only recognize the pipeline operations to be in a tax-paying position in 1982 but also that the pipeline itself is effectively located within the borders of British Columbia.

The Board is of the view that, in the circumstances of this case, the Company's arguments have merit. Accordingly, the Board has decided to employ the tax rate advocated by the Company in determining the utility's income tax allowance.

In computing the above-mentioned provincial rate, the Company failed to reflect the one percent increase in the British Columbia rate which took effect as of 1 January 1981. The Board finds the correction of this omission appropriate and has adjusted the Company-advocated rate of 52.79 percent, accordingly.

#### INCOME/EXPENSE RELATED AMOUNTS

In addition to the basic earnings derived from the return on equity, a further number of items were identified for possible inclusion in the utility tax computation. These are as follows:

1. Depreciation
2. Capital cost allowance
3. Interest during construction
4. Amortization of debt discount and expense on Series A, B, and C Bonds
5. Income taxes on deemed foreign exchange gain - Series A
6. Foreign exchange loss on redemptions - Series B
7. Allowable capital loss on foreign exchange on redemptions - Series B
8. Gain on bond redemptions - Series C
9. Taxable capital gain on bond redemptions - Series C
10. Short-term interest income.

In general, the Company agreed that where an income- or expense-related item is reflected in the cost of service, its tax effects should be reflected in the computation of the utility's tax allowance.

It is the Board's view that the application of this general principle to the list of items identified above calls for their inclusion<sup>(1)</sup> in the utility tax calculation in order both to maintain a proper charge to ratepayers and to ensure a tax provision consistent with the after tax rate of return on equity allowed in these proceedings.

With regard to the above list, the Board notes that items 1. through 3. are directly allocable to the utility operations while items 4. through 9. should, to be consistent with the general principle set forth above, be present in the utility tax computation in the same proportions that the Series A, B, and C bonds, to which they relate, are present in the capital structure used for rate-making purposes. As discussed in Chapter 2 of this Decision, 100 percent of the Series A and 44 percent of each of the outstanding balances of the Series B and C bonds have been included in the capital structure used for rate-making purposes. Accordingly, the Board has reflected proportional amounts of items 4. through 9. in the utility tax calculation.

---

(1) With the exception of item 10 which the Company acknowledged as not being reflected in the cost of service.

### FORWARD TEST YEAR APPROACH

In making its submission with respect to income taxes, ANG was requested to provide a comparative analysis of the bases which might be used in fixing a tax allowance for the utility, including that of a forward test year and a continuation of the monthly formula basis established by Order TG-1-80.

The Company's response indicated that while it had no clear set of options in mind, it would find acceptable any method under which it could expect to be kept whole over time.

Upon reviewing the evidence in this regard, it is the Board's view that the utility's income tax allowance may be properly calculated on a forward test year basis and expressed as a percent effective tax rate applicable to rate base on a monthly basis for cost of service purposes.

### CONCLUSION

Based on all the preceding findings, the Board has computed an effective tax rate of 14.99 percent to be applied to rate base. One-twelfth of this rate or 1.2492 percent is to be applied by the Company to its average monthly rate base in order to determine the amount of income taxes to be included in its monthly cost of service. The calculation of this rate is given in Appendix VII of these Reasons for Decision.





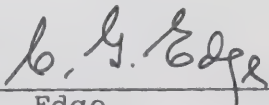
CHAPTER 4

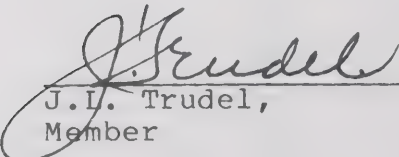
Disposition

Order No. AO-6-TG-1-80, (Appendix VIII), which amends Order No. TG-1-80 by which the tolls and tariffs of ANG are regulated, will implement the decisions contained in the foregoing chapters. In the Board's view, tolls determined in accordance with the Order, as amended, will be just and reasonable.

The tolls determined in accordance with this decision shall take effect on 1 May 1982.

The foregoing, together with Order No. AO-6-TG-1-80, constitute our Reasons for Decision and our decision in this matter.

  
\_\_\_\_\_  
C.G. Edge,  
Presiding Member

  
\_\_\_\_\_  
J.L. Trudel,  
Member

  
\_\_\_\_\_  
R.B. Horner,  
Member





ALBERTA NATURAL GAS COMPANY LTD

Calculation of Embedded Cost of Debt

	Appendix Reference	Average Principal Outstanding (\$000's)	Interest and Other Charges (Credits) (\$000's)	Cost Rate
First Mortgage Pipeline Bonds				
5 3/4% Series A (100%)		4,393		
8 3/4% Series B (44% x 5186)		2,283		
8 1/2% Series C (44% x 7063)		3,108		
	Appendix II	<u>9,873</u>	763.0	
Amortization of Debt Discount and expense	Appendix III		20.8	
Gain on Bond Purchases for Series C (44% x 210)	Appendix IV		(92.4)	
Foreign Exchange on Redemption of Series B (44% x 59)	Appendix V		26.0	
Income Taxes on Deemed Foreign Exchange of Series A	Appendix VI		<u>111.3</u>	
Total Financial Charges			<u>828.7</u>	<u>8.39%</u>



ALBERTA NATURAL GAS COMPANY LTDCalculation of Interest Costs on Long Term Debt

<u>First Mortgage Pipe Line Bonds - Amounts Outstanding</u>				<u>Interest</u> <u>(\$000's)</u>
<u>(6 1/8% - 3/8%) = 5 3/4% Series A</u>				
1 January to 15 April	4,891	x .0575	x 7/24 = 82	
16 April to 15 October	4,348	x .0575	x 12/24 = 125	
16 October to 31 December	3,804	x .0575	x 5/24 = <u>45</u>	252
<u>(9 1/8% - 3/8%) = 8 3/4% Series B</u>				
1 January to 31 May	(.44 x 5,000)	x .0875	x 5/12 = 80	
1 June to 30 November	(.44 x 4,750)	x .0875	x 6/12 = 76	
1 December to 31 December	(.44 x 4,500)	x .0875	x 1/12 = <u>91</u>	247
<u>(8 7/8% - 3/8%) = 8 1/2% Series C</u>				
1 January to 31 May	(.44 x 7,500)	x .0850	x 5/12 = 117	
1 June to 31 December	(.44 x 6,750)	x .0850	x 7/12 = <u>147</u>	264
TOTAL				<u>763</u>





ALBERTA NATURAL GAS COMPANY LTDAmortization of Debt Discount and Expense

<u>First Mortgage Pipeline Bonds</u>	<u>Applied-For Amortization (\$000's)</u>	<u>NEB Adjusted (\$000's)</u>
Series A (100%)	5	5.0
Series B (44%)	10	4.4
Series C (44%)	26	<u>11.4</u>
		<u>20.8</u>





ALBERTA NATURAL GAS COMPANY LTD

Estimated Gain on Bond Purchases  
Twelve Month Period Ending 31 December 1982

	Purchase of Series C First Mortgage Pipe Line Bonds to meet Sinking Fund Requirements 1 April 1982
Par Value Purchase Requirement	750,000
Assumed Yield to Maturity	14.25%
Purchase Price	\$72
Cash Requirement	540,000
Gain on Purchase	<u>210,000</u>
NEB Adjusted (44% x 210)	<u>92,400</u>



ALBERTA NATURAL GAS COMPANY LTDEstimated Foreign Exchange on Bond Redemptions  
Twelve Month Period Ending 31 December 1982

Purchase of Series B First  
Mortgage Pipe Line Bonds to  
meet Sinking Fund Requirements  
1 June and 1 December 1982  
(\$000's)

Purchase Requirements (U.S.)	500
Converted to Canadian Funds at Exchange Rate at Date of Issue (1.0729)	536
Converted to Canadian Funds at Estimated Exchange Rate at Date of Purchase (1.19)	<u>595</u>
Foreign Exchange Loss	<u>59</u>
NEB Adjusted (44% x 59)	<u>26</u>





ALBERTA NATURAL GAS COMPANY LTDIncome Taxes on Deemed Foreign Exchange Gain  
on Bond Redemptions  
Twelve Month Period Ending 31 December 1982

Deemed Purchases of Series A  
First Mortgage Pipe Line Bonds  
to meet Sinking Fund Requirements  
15 April and 15 October 1982  
(\$000's)

Purchase Requirements (U.S.)	1,087
Converted to Canadian Funds at Assumed Exchange Rate of 1.19%	1,294
Deemed Foreign Exchange Gain	<u>207</u>
Income Taxes on Deemed Foreign Exchange Gain (at 53.79%)	<u><u>111.3</u></u>

NOTE: Deemed foreign exchange calculation is determined as a  
result of a ruling by Revenue Canada, Taxation.



## ALBERTA NATURAL GAS COMPANY LTD

Effective Income Tax Rate

UTILITY INCOME AFTER TAX <sup>1</sup>	\$1,474,669
---------------------------------------	-------------

Adjustments to utility income after tax

ADD

Depreciation	3,983,600
Amortization of debt discount & expense	20,800
Taxable capital gain on bond purchases - Series C	44,451
Foreign exchange loss on redemptions - Series B	26,000
Income taxes on deemed foreign exchange gain - Series A	111,345

DEDUCT

Capital cost allowance	(2,286,000)
Gain on bond purchases - Series C	(92,400)
Allowable capital loss on foreign exchange on redemptions - Series B	(20,658)
Interest during construction	(22,000)

Utility income after tax as adjusted	<u>\$3,239,807</u>
--------------------------------------	--------------------

Utility income allowance $\frac{.5379}{1-.5379} \times \$3,239,807$	\$3,771,135
---	-------------

Tax factor = $\frac{\text{utility income tax allowance}}{\text{utility income after tax}}$	$\frac{3,771,135}{1,474,669} = 2.5573$
--	--

Effective tax rate = Tax factor x allowed weighted average cost of equity

= 2.5573 x 5.86%

= 14.99%

---

1. Equals the allowed weighted average cost of equity (.0586) multiplied by the 12 month average rate base of \$25,165,000 taken from item 2) (iv) (a) Schedule 2 of Exhibit 5.





NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-6-TG-1-80

IN THE MATTER OF the National Energy Board Act  
and the Regulations made thereunder; and

IN THE MATTER OF an application by Alberta  
Natural Gas Company Ltd, (hereinafter referred  
to as "the Applicant") for an Order respecting  
tolls and tariffs under Part IV of the National  
Energy Board Act, filed with the Board under  
File No. 1562-A2-1.

B E F O R E the Board on Wednesday, the 7th day of April 1982.

Upon the Applicant, by its application dated 21 December  
1981, as amended, having applied for an amendment to Order No.  
TG-1-80 to authorize an increase in the allowed Rate of Return  
on Rate Base from 11.5 percent to 15.18 percent, effective  
1 January 1982;

AND UPON the Board, by its Order No. RH-1-82, having  
invited the presentation of evidence and submissions on the method  
of calculation of the Allowance for Income Taxes to be included  
in the tolls to be charged by the Applicant;

AND UPON a public hearing having been held in the City  
of Ottawa, in the Province of Ontario, commencing on 8 March 1982,  
at which the Board heard the evidence and submissions of the  
Applicant and of other interested parties;

AND UPON the Board, having considered the evidence and  
submissions presented, being satisfied that the tolls to be  
calculated in accordance with Order No. TG-1-80, as amended by  
this Order, will be just and reasonable;

IT IS ORDERED THAT:

1. Order No. TG-1-80, as amended, is hereby changed,  
altered, and varied, effective the 1st day of May 1982, by:

- (a) revoking paragraph 11 thereof and substituting  
therefor the following:

"11. Alberta Natural shall, effective the 1st day of May 1982, utilize a Rate of Return on Rate Base of 13.3 percent.";

- (b) revoking the words "these Reasons for Decision" wherever they appear in paragraph 3 of Schedule "A" thereto, and by substituting therefor the words:

"the May 1980 Reasons for Decision";

- (c) revoking the following words contained in paragraph 6 of Schedule "A" thereto:

" - Income Taxes, employing the "flow-through" method prescribed by the Board, and using the method of calculation set out in Chapter 6 of the Board's Reasons for Decision, all subject to the limitations contained in the same chapter; and

- Return on Rate Base as determined by the Board in Chapter 7 of the Board's Reasons for Decision."

and by substituting therefor the following,

" - The allowance for income taxes;

- Return on Rate Base as determined by the Board in Chapter 2 of the Reasons for Decision dated April 1982.";

- (d) revoking sub-paragraph (vi) of paragraph 2 of Schedule "B" thereto and substituting therefor the following:


"(vi) Income Taxes

The allowance for income taxes shall be the amount calculated by multiplying 1.2492 percent by the monthly rate base for toll purposes."

2. Any provision of the Applicant's tolls and tariffs in effect on 1 May 1982 that is contrary to any Order of the Board including this Order, is hereby disallowed effective 1 May 1982.

DATED at the City of Ottawa, in the Province of Ontario this 7th day of April 1982.

NATIONAL ENERGY BOARD



---

G. Yorke Slader  
Secretary







